



June 15, 2007

Mr. Winston Hickox
Chairman, California Market Advisory Committee
c/o California Strategies
980 Ninth Street, Suite 2000
Sacramento, CA 95814

RE: Recommendations for Designing a Greenhouse Gas Cap-and-Trade System in California:
Comments on Market Advisory Committee Report

Dear Mr. Hickox:

On behalf of the members of the California Retailers Association that represents retailers throughout the State of California, we commend the efforts of the Market Advisory Committee on their "Recommendations for Designing a Greenhouse Gas Cap-and-Trade System for California." It is an important and well-written document that lays the groundwork for implementation of AB 32 and establishes a framework from which to build regarding compliance mechanisms.

In issuing the report, the Committee asked for initial comments to be submitted by June 15, 2007 which is why we are writing today. We appreciate the opportunity to provide additional feedback, which we hope you will consider for the report that will be submitted to the California Air Resources Board on June 30, 2007.

Of particular concern to our members is Section 6.5.4, which discusses linkage challenges. We are concerned that the initial opinion of the Committee could discourage early action achievements by environmentally conscious companies that are already participating in greenhouse gas reduction programs. Specifically, Table 6-1 recommends not linking with the Chicago Climate Exchange (CCX), which is one of the first GHG exchanges developed for the North American market.

We feel that the assessment that the CCX is "voluntary" is not completely accurate. Although membership is voluntary, reductions are mandatory, and the member commitment is legally binding. In addition, the CCX uses the National Association of Securities Dealers (NASD) as its independent auditing arm. CCX currently operates in both voluntary and mandatory markets. It launched the European Climate Exchange, now the leading Exchange for trading in the European Union Emission Trading Scheme. We believe that a successful program must have the ability to link to other established systems, and we feel that CCX offers compelling benefits on this front. Additionally, it is our understanding that CCX is willing to examine its protocols and procedures further to ensure they are in line with California's objectives.

Given this important information we would urge you to consider the merits of all existing programs, including the CCX, and work with those entities to develop rules that are fair to the early adopters.

Additionally, we feel it is important to reiterate some of the concepts we believe are essential to the design of effective market solutions to achieve the stated compliance programs. We appreciate the fact that many of these concepts are incorporated in your report and as implementation moves forward, that these guiding principles will continue to be critical to the success of the compliance programs. They include:

- The distribution of reductions based upon a percentage reduction off of an overall cap.
- A “free allowance” method to distribute allowances.
- A phase-in approach with a voluntary opt-in for all entities.
- Emission banking and trading.
- Required third-party verification for all credits and reductions.
- Management of all accounting systems through the exchange.
- Credit given for early action to reduce carbon emissions.
- The implementation of a global offset program (CA+USA+Global+Kyoto).
- CFTC and FASB rules governing the marketplace.
- Transportation to be considered like all other emission sources.
- Indirect emissions to be considered in the development of the baseline and the creation of offsets.
- Rules regarding adjustments to the baseline for growth or contraction.

We appreciate the opportunity to comment on your initial report and again compliment you and the Committee for your work and dedication to this critical issue. Our industry looks forward to continuing to work with you and your team in the months ahead to provide additional input and recommendations.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Dombrowski". The signature is fluid and cursive, with the first name "Bill" being more prominent and the last name "Dombrowski" written in a continuous script.

Bill Dombrowski
President